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Simcoe Erie Investors Limited

AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31st



NINETEEN SEVENTY-FOUR

HEAD OFFICE

786 King Street East, Hamilton, Ontario

REGISTRAR AND TRANSFER AGENT

The Hamilton Trust & Savings Corporation
Toronto and Hamilton

AUDITORS

Coopers & Lybrand

BANKERS

The Toronto-Dominion Bank
Fulton National Bank, Atlanta, Georgia
The First National Bank of Miami, Florida
First Security National Bank of Beaumont, Texas
Toronto-Dominion Bank
Cornhill Branch, London, England

SHARES LISTED

Toronto Stock Exchange

AR21

CanCorp

INTERIM REPORT TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED
JUNE 30, 1974

Simcoe Eric Investors Limited

786 KING STREET EAST
HAMILTON, ONTARIO

TO THE SHAREHOLDERS:

Enclosed are interim unaudited consolidated statement of income and statement of changes in investment funds for the six months ended June 30, 1974 and for the comparable period last year.

Net income for the six months was \$192,547, compared with \$225,567, last year. There were no items of extraordinary income in either period. The prime factors influencing lower earnings for the period were a continuation of poor fire experience in Canada and the devastating tornadoes in April 1974 in the United States. It is to be hoped that recent moves in the general insurance industry to set rates at a more realistic level will lead to a return to underwriting profits.

As forecast in earlier reports investment income continued to grow during the period and is expected to maintain this trend during the balance of the year. Consequently Management feels that 1974 will be a successful year for your Company.

It has been deemed necessary to make certain changes in the figures presented to you at March 31, 1974. As a result, the earnings for the first quarter 1974 previously reported to the shareholders should be amended to \$139,604, instead of \$201,681. This adjustment takes into account the effect of certain reinsurance on unearned premiums and the operations of Simcoe Bay Reinsurance for the first quarter of this year. In addition, as a result of these two adjustments, the computation of deferred acquisition costs was also affected. The change results in earnings per share for the first quarter of basic — 14.1¢ per share, diluted 11.8¢ per share (instead of basic — 20.4¢ per share, fully diluted 16.7¢).

At a meeting of Directors on August 19, 1974, a dividend of 5¢ a share was declared payable October 1, 1974 to all common shareholders of record as of September 16, 1974.

J. C. STRADWICK JR.
President

August 19, 1974

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SIMCOE ERIE INVESTORS L

CONSOLIDATED S

for the period

GROSS PREMIUMS WRITTEN	
NET PREMIUMS EARNED	
PROFIT (LOSS) FROM UNDERWRITING OPERATIONS	
EARNINGS BEFORE INTEREST AND INCOME TAXES	
DEBENTURE INTEREST	
PROVISION FOR INCOME TAXES	
EARNINGS FOR THE PERIOD	
EARNINGS PER SHARE	
Basic	
Fully Diluted	

CONSOLIDATED STATEMENT OF

For the Six Months

SOURCE OF FUNDS

Operations

Net earnings for the period	
Deferred income taxes	
Depreciation and amortization (net)	
Funds generated from operations	
Decrease in unearned premiums (net)	
Increase in accounts payable over cash and accounts	

APPLICATION OF FUNDS

Purchase of fixed assets	
Dividends	
Reduction in minority interest	
Reduction in convertible bonds	

FUNDS AVAILABLE FOR INVESTMENT	
INVESTMENT FUNDS — BEGINNING OF PERIOD	
INVESTMENT FUNDS — END OF PERIOD	

ED AND ITS SUBSIDIARIES

EMENT OF EARNINGS

ed June 30, 1974

ited)	1974 \$	1973 \$
.....	<u>13,761,671</u>	<u>12,335,854</u>
.....	<u>5,348,162</u>	<u>3,558,833</u>
.....	<u>(224,349)</u>	<u>82,652</u>
.....	346,274	523,547
.....	29,658	29,658
.....	<u>124,069</u>	<u>268,322</u>
.....	<u>192,547</u>	<u>225,567</u>
.....	<u>19.5¢</u>	<u>22.9¢</u>
.....	16.5¢	19.1¢

ANGES IN INVESTMENT FUNDS

ed June 30, 1974

	1974 \$	1973 \$
.....	192,547	225,567
.....	(75,902)	84,800
.....	<u>13,560</u>	<u>10,918</u>
.....	130,205	321,285
.....	(13,470)	180,229
ivable	<u>1,053,904</u>	<u>902,872</u>
	<u>1,170,639</u>	<u>1,404,386</u>
.....	27,628	12,916
.....	49,356	29,615
.....	400	—
.....	<u>—</u>	<u>1,500</u>
	<u>77,384</u>	<u>44,031</u>
.....	1,093,255	1,360,355
.....	<u>14,312,670</u>	<u>9,446,233</u>
.....	<u>15,405,925</u>	<u>10,806,588</u>

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Simcoe Erie Investors Limited

Simcoe & Erie General Insurance Company

The Bay City General Insurance Company

Simcoe Bay Reinsurance Company Limited
of Bermuda

Sefco Limited

Robert Bradford of Canada Limited

J. C. STRADWICK JR.
President

August 19, 1974



Officers

John Conway Stradwick, Jr.President
Anthony Thomas ChmielExecutive Vice-President
Ernest DoddSecretary
Ernest Harry SwindallTreasurer

Directors

Anthony Thomas Chmiel, John Thomas Hamilton, Kenneth
Edward Jones, Henry Vernon Kneale, William George Smith,
John Conway Stradwick, Jr., John Charles Stradwick, Sr.
William Lloyd Stradwick, John Warren Nevil Thomas,
Arnold Joseph Van Heukelom, Terrence A. Wardrop,
Malcolm McNeil Webb.

President's Report

To The Shareholders

On a consolidated basis, earnings available for shareholders in 1974 amounted to \$424,333., or 43¢ per share. Although these figures reflect a decrease in earnings from the previous year, it is still felt that 1974 evidenced a continuation of planned growth for your Company. It should also be noted that net premiums written and earned continued to increase steadily even though there was a small reduction in gross premiums written.

With reference to our results, there was a deterioration in our underwriting position. Industry figures published recently indicated that 1974 was the most unprofitable underwriting year in Canadian history. As evidenced by our figures, your Company was not able to escape the events that created this situation. Loss frequency, inflation and inadequate rates all played their part in the downturn, but I think it is now safe to say that our industry has recognized the problems of 1974 and is moving to correct them. Therefore, it is anticipated that our underwriting result will improve in 1975 and when combined with the return from our steadily increasing invested assets, it will confirm the confidence we have in the future of our Company.

During 1974 our Bermuda subsidiary, Simcoe Bay Reinsurance Company Limited, commenced operations and by the end of the year had achieved its goal of becoming a recognized international reinsurance market. It is expected that it will provide a balance to our premium income that is impossible to achieve by operating only in Canada. It also will give us the opportunity to build up the international base of our investment portfolio, thus tempering the effect of financial market fluctuations in individual countries.

As mentioned in last year's report, it is difficult to predict the future in times as turbulent as the present, but we remain confident that our position is advantageous and that the problems that have disturbed our industry are creating an unparalleled opportunity for our Company. Needed rate increases expected for several years have become general during the First Quarter 1975, and the disappearance of several companies from Canada has done much to alleviate the ruinous competition of the recent past.

Our Company is well equipped structurally and financially to handle the increase in volume the foregoing situation is creating. I am optimistic that having performed reasonably during 1974, we will continue our profitable growth pattern in the future.



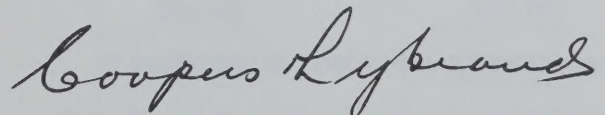
John G. Thatch
PRESIDENT

Auditors' Report

To The Shareholders

We have examined the consolidated balance sheet of Simcoe Erie Investors Limited and its subsidiaries as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974, and the results of their operations and their changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



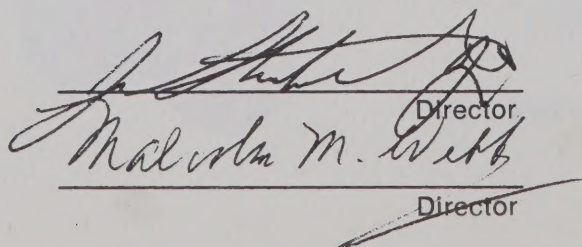
CHARTERED ACCOUNTANTS

Dated Hamilton, Ontario, April 9, 1975



Consolidated Balance Sheet as a

Assets	1974 \$	1973 \$
Cash	862,944	901,998
Accounts receivable		
Agents	2,066,761	2,223,247
Reinsurers	353,948	227,684
Other	10,691	—
	<u>2,431,400</u>	<u>2,450,931</u>
Accrued interest	287,474	172,044
Investments		
Short-term deposits	879,460	2,402,580
Bonds - at amortized cost (quoted market value 1974 - \$11,303,228; 1973 - \$9,360,021)	13,126,834	9,927,314
Stocks - at cost (quoted market value 1974 - \$1,756,231; 1973 - \$1,690,235)	2,639,224	1,982,776
	<u>16,645,518</u>	<u>14,312,670</u>
Investment in subsidiary - at cost (Note 1)	500	—
Investment in corporate joint venture (Note 4)	(26,673)	2,500
Fixed assets - at cost less accumulated depreciation (Note 5)	87,419	72,667
Other assets	424,257	150,599
Excess of cost of investment in shares of subsidiaries over net book value of assets acquired - less amortization (Note 6)	198,500	208,932
Deferred premium acquisition costs	1,154,504	1,064,864
Signed on behalf of the Board	1,838,507	1,499,562
	<u>22,065,843</u>	<u>19,337,205</u>


 Director
 Director

December 31, 1974

Liabilities	1974 \$	1973 \$
Bank loan and advances (Note 7)	603,684	600,000
Unpaid claims and provision for adjustment expenses	7,275,093	5,489,887
Accounts payable		
Reinsurers	1,971,043	2,455,070
Agents	557,537	175,030
Other	335,285	566,533
Income and other taxes payable	503,297	9,076
Reinsurers' deposits	1,196,640	878,528
	<u>11,838,895</u>	<u>9,574,124</u>
Unearned premiums	4,117,872	3,928,908
Note payable	62,283	62,628
6% Convertible debentures (Note 8)	988,600	988,600
Deferred income taxes	489,300	543,100
	<u>5,658,055</u>	<u>5,523,236</u>
Minority interest	7,202	7,459
Shareholders' Equity		
CAPITAL STOCK (Notes 8 and 9)		
Authorized		
2,000,000 Common shares without par value		
Issued		
987,119 Shares	2,663,641	2,663,641
RETAINED EARNINGS	1,294,366	968,745
	<u>3,958,007</u>	<u>3,632,386</u>
	<u>22,065,843</u>	<u>19,337,205</u>

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1974

	1974 \$	1973 \$
BALANCE - BEGINNING OF YEAR	968,745	467,341
Net earnings for the year	424,333	577,299
Foreign exchange adjustment	—	3,075
	<u>1,393,078</u>	<u>1,047,715</u>
Dividends	<u>98,712</u>	<u>78,970</u>
BALANCE - END OF YEAR	<u><u>1,294,366</u></u>	<u><u>968,745</u></u>



Consolidated Statement of Earnings

For the Year Ended December 31, 1974

	1974 \$	1973 \$
GROSS PREMIUMS WRITTEN	24,402,731	25,095,355
Reinsurance ceded	13,230,181	15,783,290
NET PREMIUMS WRITTEN	11,172,550	9,312,065
Increase in unearned premiums	188,964	688,389
NET PREMIUMS EARNED	10,983,586	8,623,676
NET CLAIMS AND ADJUSTMENT EXPENSES	8,029,256	5,710,669
	2,954,330	2,913,007
UNDERWRITING EXPENSES		
Commissions	1,712,740	1,477,565
Premium taxes	400,834	357,379
Other	869,782	1,215,611
	2,983,356	3,050,555
Increase in deferred premium acquisition costs	89,640	382,757
	2,893,716	2,667,798
PROFIT FROM UNDERWRITING OPERATIONS	60,614	245,209
OTHER INCOME AND (EXPENSE)		
Investment income	1,234,127	928,024
Management fees	7,497	29,254
Debenture interest	(59,316)	(59,316)
Other	(465,327)	(4,443)
	716,981	893,519
	777,595	1,138,728
SHARE OF LOSS OF CORPORATE JOINT VENTURE (Note 4)	29,173	—
	748,422	1,138,728
PROVISION FOR INCOME TAXES		
Current	377,746	335,770
Deferred	(53,800)	224,400
	323,946	560,170
NET EARNINGS FOR THE YEAR BEFORE MINORITY INTEREST	424,476	578,558
MINORITY INTEREST	143	1,259
NET EARNINGS FOR THE YEAR (Notes 6 and 11)	424,333	577,299
EARNINGS PER SHARE (Note 10)	.43	.58

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1974

RESOURCES PROVIDED	1974 \$	1973 \$
Operations		
Net earnings for the year	424,333	577,299
Deferred income taxes	(53,800)	224,400
Depreciation and amortization	31,527	22,730
Amortization of the excess of cost of investment in shares of subsidiaries over net book value of assets acquired	10,432	—
Share of loss of corporate joint venture	29,173	—
Unrealized exchange gain	(345)	—
Minority interest share in earnings	143	1,259
Increase in unearned premiums	188,964	688,389
	<u>630,427</u>	<u>1,514,077</u>
Increase in accounts payable over cash and accounts receivable	2,207,926	1,989,866
Proceeds of bank loans	3,684	600,000
Portfolio transfer	—	556,065
Proceeds on disposal of fixed assets	9,079	—
Increase in unearned premium and deferred taxes assumed on purchase of Bay City	—	791,509
Excess of Bay City investment value assumed over cost	—	25,281
Other	—	9,337
	<u>2,851,116</u>	<u>5,486,135</u>
RESOURCES APPLIED		
Increase in deferred premium acquisition costs	89,640	382,757
Dividends	98,712	78,970
Redemption of convertible bonds	—	1,500
Purchase of fixed assets	55,358	30,473
Purchase of other assets	273,658	123,498
Purchase of shares in other companies	900	2,500
	<u>518,268</u>	<u>619,698</u>
INCREASE IN RESOURCES	2,332,848	4,866,437
INVESTMENT FUNDS - BEGINNING OF YEAR	14,312,670	9,446,233
INVESTMENT FUNDS - END OF YEAR	<u>16,645,518</u>	<u>14,312,670</u>

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1974

1. Principles of Consolidation

The consolidated financial statements include the accounts of the company and three of its subsidiary companies, Simcoe & Erie General Insurance Company, Bay City General Insurance Company and Simcoe Bay Reinsurance Company Limited. The investment in an inactive fourth subsidiary, Sefco Limited, has not been consolidated as the accounts are not material in relation to these statements.

The consolidated subsidiaries are regulated under certain insurance laws and are obliged to meet certain requirements as to ratios of assets to liabilities. The subsidiaries have properly met these requirements.

SIMCOE BAY REINSURANCE COMPANY LIMITED (Note 3)

Simcoe Bay Reinsurance Company Limited, which is based in Bermuda, commenced operations on January 2, 1974. The Company purchased 120,000 common shares, being all of the issued capital of this subsidiary for \$122,000. The consolidated financial statements include the assets and liabilities and the results of operations of this subsidiary from the date of commencement of its operations.

2. Basis of Presentation

The accounts of the subsidiaries are included herein in accordance with generally accepted accounting principles. Adjustments have been made for consolidation purposes to convert these accounts from a statutory basis as follows:

- (a) The values of bonds and debentures have been converted to amortized cost from values authorized by the Superintendent of Insurance.
- (b) Other assets, comprising automobiles, office equipment and leasehold improvements, have been capitalized and are being depreciated over their useful lives, rather than being written off when acquired.
- (c) Deferred premium acquisition costs are those costs such as agents' commissions, premium taxes and certain other underwriting expenses which relate directly to the acquisitions of premiums. These costs, to the extent that they are considered to be recoverable, are deferred and amortized over the term of the related premiums.



2. Basis of Presentation

- (d) The "additional policy reserve" and "reserve for unregistered reinsurance" set up under statutory requirements have been eliminated.
- (e) Provision has been made for deferred income taxes, not required under the statutory basis.

Also, assets and liabilities in foreign currencies have been converted to Canadian funds at rates prevailing at the balance sheet date.

3. Operations of Simcoe Bay Reinsurance Company Limited

This Bermuda-based subsidiary reports underwriting income, claims and expenses on a "year-of-account" basis. Under the "year-of-account" basis, all premiums written in a particular year are credited to a suspense account for that year and left there for a period of three years. Claims and expenses arising during the three-year period are then charged to the suspense account containing the premiums to which they relate. At the end of the third year, the account is closed and the profit or loss taken up in earnings.

For consolidation purposes, the underwriting operations of this company have been converted to an annual basis.

4. Joint Venture - Accounted for on an Equity Basis

The company has a 50% interest in Robert Bradford of Canada Limited. The investment in shares of this company, accounted for by the equity method, is carried at cost adjusted by the Company's share of their earnings or losses since January 1, 1974. Although the 50% interest was obtained during 1973, the former sole shareholder has agreed to fund the deficit existing at December 31, 1973 and to recover the amount so advanced from profits in subsequent years. Thus no losses incurred by Robert Bradford of Canada Limited to December 31, 1973 are attributable to the Company.

5. Fixed Assets

The balance sheet figures for fixed assets consist of the following:

	1974 \$	1973 \$
Equipment, automobiles and leasehold improvements	198,312	165,303
Less: Accumulated depreciation and amortization	<u>110,893</u>	<u>92,636</u>
	<u>87,419</u>	<u>72,667</u>

6. Amortization

The excess cost of investment in shares of subsidiaries over net book value of assets acquired is being amortized on a straight line basis over twenty years beginning in the current year. The amount charged to earnings during the year was \$10,432.

7. Bank Loan

The common shares of a subsidiary company representing net assets of approximately \$723,000 have been pledged as security for the bank loan.

8. Convertible Debentures	<p>The debentures are secured by a first floating charge on the assets and undertaking of the company and are convertible into common shares at \$3.75 per share on or before December 31, 1976 and at \$5.00 per share thereafter, but on or before December 31, 1981. 263,627 shares have been set aside to satisfy the remaining conversion privileges.</p>
9. Share Warrants	<p>There are 9,670 share warrants outstanding as at December 31, 1974 which may be exchanged for common shares on the same basis as the convertible debentures described in Note 8.</p>
10. Fully Diluted Earnings Per Share	<p>If it were assumed that all of the 6% convertible debentures and share warrants outstanding at December 31, 1974 had been converted into common shares as of January 1, 1974, the earnings per share for 1974 would have been \$.36 (1973 - \$.48).</p> <p>For purposes of calculating the fully diluted earnings per share figures, the earnings applicable to common shares was increased by the interest, after income taxes, on the 6% convertible debentures (\$28,145) and the imputed earnings on the exercise of the share warrants (\$1,721), and the number of common shares adjusted to reflect the additional shares that would have resulted on conversion (273,297 shares).</p>
11. Statutory Information	<p>Expenses for the year include depreciation and amortization in the amount of \$31,527 (1973 - \$22,730).</p> <p>The remuneration of directors and senior officers of the company and its subsidiaries, as defined by the Business Corporations Act (Ontario), amounted to \$177,769 (1973- \$168,976).</p>
12. Comparative Figures	<p>Certain of the 1973 figures have been reclassified to conform with the 1974 method of presentation.</p>



